

SBIR Newsletter October 2002

- **Feature Story:** Value Isn't Just About The Money
- **Competition Tips:** John Pope, The Blue Sky Group, Private and Public Funds All Part of The Package at The Blue Sky Group
- **Workshops:** Check out the SBIR proposal-writing and commercialization workshops.
- 2nd Annual SBIR Conference be to be held October 30, 2002, Miles City, MT

If you have questions or subjects you would like covered, please contact [Linda Brander](#), SBIR Outreach Coordinator or call (406) 841-2749.

1.0 Value Plus: It Isn't Just About The Money

Mike McCue, LigoCyte Pharmaceuticals, CEO, is well positioned to make a good impression on potential investors as he begins raising equity capital. The Bozeman biotech company has received several SBIR grants, allowing it to move ahead with the research and development of its pharmaceuticals without accumulating significant debt pursuing false starts and dead ends.

“We have a very small cash-burn rate, which is unusual for a biotech company,” explains McCue. “Private investors look on that favorably, knowing that their investment dollars will be used for product development activities.”

It all ties back to the credibility gained from surviving the rigorous SBIR review process. In addition to addressing the market for its drugs, LigoCyte's Phase II commercialization plans address the hurdles of getting the compound into early-stage human clinical trials and then on to FDA approval, and the cost parameters of doing so. Gaining approval of the National Institute of Health SBIR reviewers tells private investors that LigoCyte has proven the viability of both its technology and its commercialization strategy.

The same can be said of other successful grantees. Consider the odds of receiving SBIR funding from the National Science Foundation (NSF). “We get almost 2,000 Phase I proposals a year, and we typically fund about 15 percent,” says Joe Hennessey, senior advisor of the NSF SBIR Program, Arlington, VA. “Of those, about 80 percent come back with Phase II proposals. The success rate is about 50 percent. So those who receive Phase II awards have a pretty significant level of credibility with investors.”

Sustainability is the Goal

To help its grantees find private investors, NSF now offers MatchMaker on its SBIR program Web site. Phase II grantees and early stage investors are encouraged to register on the site. Venture capital groups, angel investors and strategic corporate partners are all invited to contact NSF to learn more about companies of interest.

NSF also supports its Phase II grantees with the Phase IIB program. In the second year of their Phase II funding, grantees with proven third party funding can submit a proposal for supplemental NSF funding. “We will match 50 cents on the dollar up to a maximum of \$750,000 for the total of the Phase II and Phase IIB awards,” Hennessey says. “So if a grantee has raised \$500,000, we can give them an additional \$250,000, for example.”

Interest in this program is growing. Five grantees applied the first year, while 53 applied this year, the fourth year of the program. Of the 53, Hennessey estimates that about 40 will receive the supplemental funding. “Most of those not funded will be cases in which investors backed off generally because of conditions in the financial markets,” he says.

Given the current market, some investors are putting their money into companies they’ve already invested in to shore them up, rather than risking funds in unproven start-ups—another reason for grantees to be appreciative of the SBIR review process.

Moreover, the credibility gained from receiving SBIR funding is growing as federal SBIR agencies become even more stringent about the viability of the proposed commercialization plans. NSF asks companies to provide a commercialization plan as part of their Phase II proposal, and a commercialization history is required as part of all their proposals if the company has received Phase II funding from any federal agency.

“If a company has been in business for several years and most of its revenue comes from SBIR awards, the reviewers really question whether we should invest any more money. Another problem is with companies with substantial funding from the SBIR program and minimal sales revenue from those completed projects. We’ve had people submit excellent proposals, but they are turned down because they have a marginal commercialization history,” Hennessey says.

McCue agrees with the stricter standards. “The ultimate goal is to use SBIR funds on something that has sustainable value for the company,” he says.

No investor, private or public, wants to invest in research for the sake of research.

2.0 Private and Public Funds all Part of the Package at The Blue Sky Group

Angels, venture capitalists, corporate partners, and small companies have plenty of options when looking for private investors. But where do you start?

John Pope, president and chair of the Blue Sky Group (BSG), Laramie, WY, recommends starting at the beginning—with your business plan. “Regardless of how you intend to finance your company, the first step is writing a business plan,” he says. He also stresses that companies should always view SBIR funding as one pathway to finance a very specific stage of your business. “Use it as a part of your overall financing package. If you view SBIR as an end product, your business will probably never grow into a real company,” Pope says.

He should know. BSG current portfolio consists of high-tech companies concentrating (for the moment, at least) in the energy and materials sectors. It has received SBIR funding for several Phase I projects and has two Phase II proposals pending. BSG also raises private funding for investment into its portfolio companies, and each portfolio company raises its own venture capital.

Pope offers the following tips about leveraging SBIR funding.

- **It's all about credibility.** SBIR funding, especially Phase II funding, is a powerful screening mechanism for investors. "Many of these investment companies don't really know much about the technology. Knowing you've received SBIR funding reduces their risk," he says.
- **Know when and where to go for private funding:** "The biggest problem in finding private investors is searching for the wrong kind at the wrong time," say Pope. To find the "right" investors, view them as customers. You need to talk their language and give them what they want. If you don't, you end up wasting your time and theirs.
- **Consider working with an investment finder.** The Blue Sky Group learned the hard way the level of mastery required to find venture capital. "It's a field all its own, and you have to respect the process," Pope says. You can either put in the time to learn the process or work with a finder who knows the private investment market.
- **If you do, check them out!** Investment finders have a bad name among some entrepreneurs because some of them haven't delivered on their promises. There are even networks of "angels" who charge heavy fees for high-risk ventures. "It's a dangerous game, so it is crucial to check the finders' references to ensure they are ethical in their operations. It's also vital to have at least a portion of their compensation be based on performance," he says.
- **Leverage your stock.** Pope believes that many small business owners don't understand how powerful their company stock is. "When you use the stock as compensation, everyone is on the same team. If you don't, it's money out of the company, and the biggest thing new companies need is money, so that doesn't make sense," he says. "So beware of the finder who is broke!"

3.0 Congratulations to the following SBIR award winners!

Phase 0 Winner

The Phase 0 Program at the Department of Commerce is not accepting any new solicitations because the federal grant money that subsidized the Phase 0 program has been expended. Eleven companies received grants. The Montana Department of Commerce has applied for more federal funding from the SBA and is waiting to see if its application is approved.

Phase 1 & 2 Winners

No federal winners were identified since August 2002.

Tibbets Award

Congratulations to Dawn D'Atri, Parvis, Inc, Bozeman, Montana, who is the winner of the 2002 Tibbets Award. Named for Roland Tibbets, acknowledged as the father of the Small Business Innovation Research Program, these prestigious national awards are made annually to those small firms, projects, organizations or individuals judged to exemplify the very best in SBIR achievement.

WE DO OUR BEST TO IDENTIFY EVERY AWARD WINNER, BUT WE MAY HAVE ACCIDENTALLY MISSED YOUR COMPANY. IF WE HAVE, PLEASE NOTIFY LINDA BRANDER (406) 841-2749 or lbrander@state.mt.us

4.0 Solicitations

| Open Solicitations | | | |
|---|---------------|-------------------|---------------|
| Program | Release Dates | Accepts Proposals | Closing Dates |
| HHS/NIH SBIR/STTR (Contracts) | 1 Aug 2002 | 1 Aug 2002 | 8 Nov 2002 |
| HHS/Trans-NIH SBIR PA (Grants) | | | 1 Aug 2002 |
| Bioengineering Nanotechnology Initiative | 3 Jun 2002 | 3 Jun 2002 | 1 Dec 2002 |
| USDA SBIR | 5 Jun 2002 | 5 Jun 2002 | 30 Aug 2002 |
| NSF SBIR/STTR for BT & EL only | 1 Mar 2002 | 10 Oct 2002 | 22 Jan 2003 |
| HHS/NIH SBIR/STTR (Grants) | | | 1 Apr 2002 |
| Non-Aids Related Topics | 15 Jan 2002 | 15 Jan 2002 | 1 Aug 2002 |
| | | | 1 Dec 2002 |
| HHS/NIH SBIR/STTR (Grants) | | | 1 May 2002 |
| Aids Related Topics | 15 Jan 2002 | 15 Jan 2002 | 1 Sept 2002 |
| | | | 1 Jan 2002 |
| HHS/FDA SBIR (Grants) | | | 1 Apr 2002 |
| | 15 Jan 2002 | 15 Jan 2002 | 1 Aug 2002 |
| | | | 1 Dec 2002 |

For a complete overview of all solicitations go to: <http://www.zyn.com/sbir/scomp.htm>

5.0 State Conferences and Workshops

SBIR Phase I Proposal Writing Workshop, Jim & Gail Greenwood, nationally renowned SBIR consultants will be the presenters. **Free**. Must pre-register and space is limited. Register online at: http://sbir.state.mt.us/BRD_SBIR_conf.html.

October 16, Missoula, MT, The Inn on Broadway, 9:00 AM to 4:30 PM.

SBIR Phase I Cost-Proposal Development Workshop, Jim and Gail Greenwood will be the presenters. Free. Must pre-register. **Free**. Must pre-register online. Register online at: http://sbir.state.mt.us/BRD_SBIR_conf.html.

October 17, Missoula, MT, The Inn on Broadway, 9:00 AM to 4:30 PM.

Developing a Commercialization Plan for Your SBIR Innovation, Marcia Rorke, Mohawk Research Tucson, AZ, will be the presenter. Any individual or company that

develops new ideas or inventions will benefit from attending this seminar. The focus will be on commercialization issues intended to optimize the technology in the marketplace. **Cost: \$25.** Must pre-register and space is limited.

- [October 22, Helena, MT, 9:00 AM to 4:00 PM](#)
- [October 23, Bozeman, MT 9:00 AM to 4 PM](#)

Cashing In on Your Idea - A practical, hands-on conference to help you go from innovation to commercialization. Participants who attend this seminar will learn how successful entrepreneurs cultivate innovation in their companies, and learn the techniques to think like an inventor, conduct the research to test the validity of the idea, and create a business plan to ensure success. **Cost: \$25.** Register online at: http://sbir.state.mt.us/BRD_SBIR_regmlscty.asp.

October 30, Miles City Community College, Miles City, MT 8:30 AM to 4:30 PM

Regional/National Conferences and Workshops

National SBIR Fall Conference. The National Science Foundation, in association with the Department of Defense, Small Business Administration, and all 10 SBIR agencies are sponsoring this National SBIR Fall Conference. Program Managers and representatives from all participating agencies will provide insight into how to work with their respective agencies and answer your own special questions during the one-on-one opportunities. **Cost: \$325 before October 7, \$375 after October 7.** To receive more detailed announcements about the national conference go to: <http://www.zyn.com/sbir/cal/index.htm#burlington>.

October 28, 2002 to October 31, 2002, Shearton Burlington Hotel, Burlington, Vermont

6.0 Resources

National Science Foundation (NSF) SBIR MatchMaker Program is the place where small high tech businesses meet potential investors and strategic partners. To learn more about this program go to: <http://www.eng.nsf.gov/sbir/matchmaker.htm>.

WebPatent, a company owned and operated by Dr. Robert Hunter, SBIR award winner, and former Montanan, has an extensive list of financing resources. To access go to: <http://www.webpatent.com/content/funding.htm>.

Financing Innovation Books (identified in booklet published by the US Department of Energy):

The Ernst & Young Guide to Financing for Growth, Daniel Garner, Robert Owen, and Robert Conway.

Venture Capital Handbook, David Gladstone.

The Entrepreneur Magazine Guide to Raising Money, published by Entrepreneur Magazine.

More information can also be found at the [SBIR](#) agency web sites.